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for NIOs eting with DCI on
7 Sep 84

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Perspectives on the Argentine Debt Crisis

Once again Argentina is moving toward a confrontation with the IMF and the main creditors, with the likely focus being 30 September, when many outstanding US bank loans to Argentina will become nonperforming if interest is not paid. The problem will be hard to be patch up this time; the banks probably will not make any accommodations until there is an Argentine agreement with the IMF on a Letter of Intent. There is also a strong possibility that the Argentine loans would be reclassified as "value impaired." Argentina will try to drum up support for its positions at the IMF/IBRD annual meeting scheduled for 22 - 27 September. Its strategy has been discussed with the other countries in the so-called Cartagena Group, which includes most of Latin America.

If there appears to be no agreement in prospect with the IMF by late September, Treasury is proposing to put pressure on Argentina by working both with other creditor countries and with the better behaved debtors, like Mexico and Brazil. CIA and State believe, and I agree, that pressure would be counterproductive. External pressure would almost certainly make it politically impossible for the Argentine government to come to terms with the IMF. On the other hand, the Argentines will have to develop an economic stabilization program for their own reasons. Once they have done so, agreement with the IMF and the creditors will be much easier.

Recent press articles [redacted] suggest that inflation, which has reached an annual rate of 600 percent, is becoming viewed by Argentines as the critical problem. Labor appears to realize that promises to raise real wages do not mean much when inflation is so rapid. Consumers spend more and more time shopping, inventories are disappearing, and I suspect production is being disrupted, although there are no good data on this. The government has announced elements of a program to gradually reduce inflation, but this is unlikely to work because events are so far out of control and because it is almost impossible to take gradual steps that will appear equitable to different groups. More drastic measures will probably become necessary before the Argentine economy can resume economic growth. All this is quite apart from the external debt problem, which itself is very serious.

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Until the Argentines decide how they want to deal with the inflation issue, trying to pressure them into agreeing on a stabilization program with the IMF seems pointless. We, and the IMF, should stay out of the way until they have sorted out their own problems

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